

Annual Report
FIRST NATIONAL STORES INC.
year ending

March 27, 1948

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F6107

FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFE, <i>President</i>	RALPH F. BURKARD, <i>Treasurer</i>
JAMES C. DUANE	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

RALPH F. BURKARD
JOHN L. MACNEIL
ARTHUR O'KEEFE



Directors

CHARLES H. BURGER
RALPH F. BURKARD
JAMES C. DUANE

BYRON M. FLEMMING
SAMUEL JOSELOFF
DANIEL J. LYNE

JOHN L. MACNEIL
JAMES J. O'HARE
ARTHUR O'KEEFE

Somerville, Massachusetts, June 10, 1948.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 27, 1948 is presented herewith.

The figures given in this report are comparable with those of the prior year as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been examined by independent accountants, Messrs. Price, Waterhouse & Co., and their comments thereon are included in this report.

Sales of \$315,915,554 show an increase of 23.16% over the prior year. After a provision of \$5,090,000 for Federal Taxes and an appropriation of a \$2,400,000 reserve for inventories in retail stores, our net profit was \$5,629,705 or \$6.87 per share. For the previous year the net profit was \$6.54 per share, after provision of \$4,600,000 for Federal Taxes and an appropriation of \$1,885,000 (after taxes) for past service liability for employees' retirement benefits under the Company's amended pension plan.

The following is a condensed summary of operations for the fiscal year ending March 27, 1948, compared with operations for the fiscal year ending March 29, 1947.

	<i>For the Fiscal Year Ending</i>	
	<i>March 27, 1948</i>	<i>March 29, 1947</i>
Retail stores sales	\$315,915,554	\$256,506,910
Net profits after taxes, depreciation, appropriations and all charges and available for dividends	\$5,629,705	\$5,357,235
Earnings per share of common stock (on shares outstanding at end of year).	\$6.87	\$6.54
		<i>As of</i>
	<i>March 27, 1948</i>	<i>March 29, 1947</i>
Net working capital (current assets less current liabilities)	\$20,053,426	\$19,898,334
Fixed or property assets (less depreciation)	\$13,385,472	\$9,794,848
Net Worth	\$32,941,303	\$29,971,948
Earned Surplus	\$26,205,024	\$23,235,669

On the following page are graphic charts which show the results of our operations for the past twenty-two years.

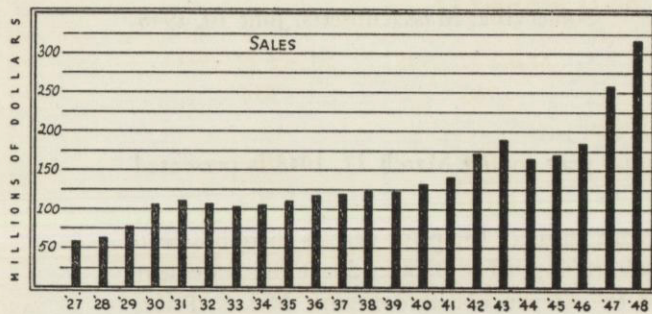
DEPRECIATION CHARGES AND MAINTENANCE CHARGES

	<i>Fiscal Years</i>		
	<i>1948</i>	<i>1947</i>	<i>1946</i>
Depreciation charges	\$1,305,436	\$997,774	\$936,823
Maintenance repairs and renovation charges	\$2,870,993	\$1,895,765	\$1,589,847

The above amounts were charged to earnings in their respective years to cover the depreciation and obsolescence, maintenance repairs and renovation of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

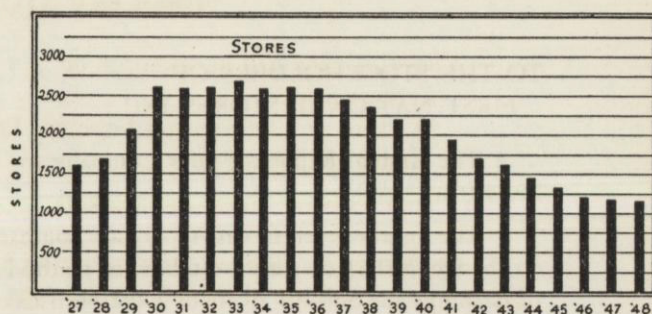
DIVIDENDS PAID

For the fiscal year ending March 27, 1948, two quarterly dividends of 62½¢ a share, two quarterly dividends of 75¢ a share and a special dividend of 50¢ a share, totalling \$3.25, were paid on the common stock outstanding.



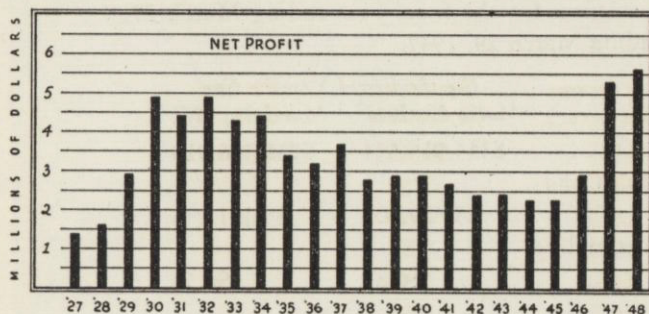
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1934	\$105,812,781	1941	\$142,680,921
1928	64,445,962	1935	111,323,463	1942	174,378,932
1929	75,884,639	1936	119,575,417	1943	187,839,592
1930	107,635,216	1937	120,682,961	1944	164,924,978
1931	108,196,686	1938	124,294,617	1945	170,236,678
1932	107,634,383	1939	124,222,955	1946	182,131,241
1933	100,892,947	1940	131,041,157	1947	256,506,910
				1948	315,915,554



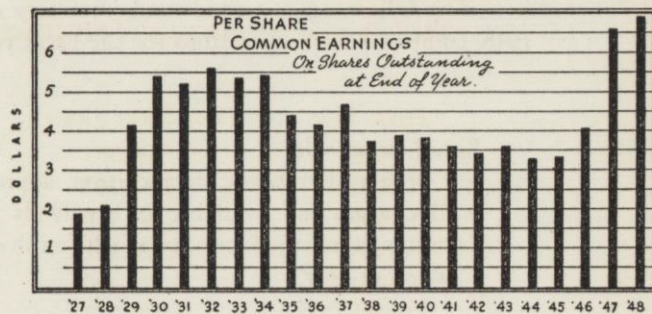
Stores—Fiscal Years

1927	1681	1934	2653	1941	1923
1928	1717	1935	2623	1942	1748
1929	2002	1936	2556	1943	1585
1930	2549	1937	2473	1944	1463
1931	2548	1938	2350	1945	1340
1932	2546	1939	2244	1946	1236
1933	2705	1940	2137	1947	1201
				1948	1150



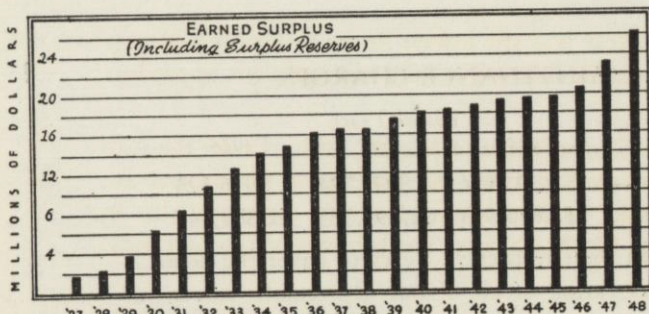
Net Profits—Fiscal Years

1927	\$1,492,193	1934	\$4,394,830	1941	\$2,508,719
1928	1,593,358	1935	3,433,504	1942	2,380,294
1929	2,904,884	1936	3,163,329	1943	2,465,079
1930	4,773,446	1937	3,647,001	1944	2,235,104
1931	4,479,108	1938	2,705,191	1945	2,294,604
1932	4,825,611	1939	2,774,366	1946	2,885,555
1933	4,220,099	1940	2,739,074	1947	5,357,235
				1948	5,629,705



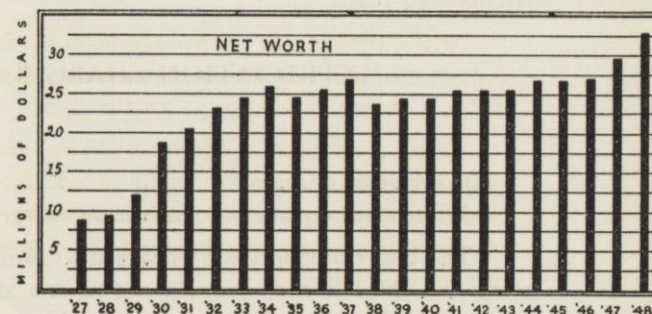
Per Share Common—Fiscal Years

1927	\$1.92	1934	\$4.97	1941	\$3.06
1928	2.09	1935	3.89	1942	2.90
1929	4.07	1936	3.65	1943	3.01
1930	5.39	1937	4.24	1944	2.73
1931	5.03	1938	3.14	1945	2.80
1932	5.52	1939	3.38	1946	3.52
1933	4.78	1940	3.34	1947	6.54
				1948	6.87



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1934	\$14,213,494	1941	\$18,572,964
1928	2,238,303	1935	15,121,448	1942	18,889,476
1929	3,987,782	1936	16,062,827	1943	19,308,135
1930	6,369,726	1937	16,670,118	1944	19,496,819
1931	8,371,910	1938	16,688,036	1945	19,745,003
1932	10,816,321	1939	17,423,131	1946	20,334,138
1933	12,666,672	1940	18,112,565	1947	23,235,669
				1948	26,205,024



Net Worth—Fiscal Years

1927	\$8,723,782	1934	\$26,190,916	1941	\$25,293,286
1928	8,965,710	1935	24,820,470	1942	25,625,755
1929	11,724,410	1936	25,761,849	1943	26,044,414
1930	18,347,148	1937	26,369,140	1944	26,233,098
1931	20,349,333	1938	23,746,089	1945	26,481,282
1932	22,793,743	1939	24,216,168	1946	27,070,417
1933	24,644,049	1940	24,874,883	1947	29,971,948
				1948	32,941,303

GROCERY STORES AND MARKETS

Your Company had in operation on	<i>March 27, 1948</i>	<i>March 29, 1947</i>
Grocery Stores	766	814
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	384	387
Total Grocery Stores and Markets	1,150	1,201

On March 27, 1948 we were operating 51 fewer stores than on March 29, 1947. Of the 766 grocery stores, 242 are of the Self-Service type and of the 384 markets, 289 are Self-Service markets. Your Company is continuing the development of large stores of the Self-Service type—both in buildings leased and in buildings which we construct and own.

TAXES

Our total direct tax bill for the fiscal year ending March 27, 1948 amounted to \$6,768,065. This amounts to 55% of our profits before taxes for the year and equals \$8.27 for each share of our Common Stock.

The following is a summary of our direct taxes.

<i>Fiscal Year</i>	<i>Total Direct Taxes</i>	<i>% of Income (before taxes)</i>	<i>Per Share On Common</i>	<i>Per Store Operated</i>
1948	\$6,768,065	55%	\$8.27	\$5,885
1947	6,161,202	53%	7.53	5,130
1946	6,194,310	68%	7.56	5,011
1945	4,776,961	67%	5.83	3,564
1944	4,374,410	66%	5.34	2,990
1943	4,779,787	66%	5.84	3,015
1942	2,647,530	52%	3.23	1,514
1941	2,002,231	44%	2.44	1,041
1940	1,656,274	37%	2.02	753
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

COMMENTS

Even though our percentage mark-up for the year was the lowest in the Company's history and our cost of doing business was materially higher, the increase in sales was sufficient to produce the gain shown in our profits for the year.

Food costs to us in March, 1948 had risen 131% over those of March, 1941. Under the Lifo (last-in-first out) inventory method which we adopted in 1941, our warehouse inventories are carried on our books at a conservative value. In order to carry our retail stores' inventory also on a conservative basis, we have set up a reserve of \$2,400,000 from the earnings of the past fiscal year for that purpose.

Your Company has a substantial development program which, when completed, will include—a new warehouse and bakery at Portland, Maine—a new warehouse at East Providence, Rhode Island—an addition to our East Hartford, Connecticut warehouse and bakery—and also several new stores which we plan to build upon land previously acquired for that purpose.

The East Hartford and the Portland projects are now under construction, and they should be completed late this year. We also have under construction several buildings for Self-Service stores.

Because of high construction costs, we are proceeding with this development at a conservative pace. First consideration is being given to the projects for which there is the greatest need and which give promise of a good return on the expenditure at today's high costs. It is our present expectation that this expansion can be paid for out of our own resources—without resorting to permanent financing or long term borrowings.

This development will enable us to maintain and improve our position in the field of food distribution, through better service to our customers and a lower cost of operation.

Many important changes are taking place today in food retailing. The new larger and more modern stores with their attractive layouts and displays—the introduction of self-service on meats as well as on other foods—larger parking facilities wherever possible—more scientific management of stores through training of employees and modern handling equipment—all point to an interesting and challenging future in the development of our business. We are confident that our organization will continue to make a favorable showing in the chain food industry.

We take pleasure in publicly expressing our appreciation for the fine cooperation extended by the employees of the Company during the past year.

We report the resignation in September, 1947 of Mr. Morris Joseloff, Vice President in charge of our Hartford Division. He was also a Director and a member of our Executive Committee. Mr. Joseloff has had a long and successful career in the chain food business. He was formerly principal owner and Treasurer of the Economy Grocery Co. of Connecticut which we acquired in 1930.

It is with sorrow and regret that we record the death on October 2, 1947 of Mr. Charles F. Adams, former Treasurer of our Company, and at the time of his death, a Director and member of the Executive Committee. Mr. Adams, a pioneer in the chain food industry, made many valuable contributions to the formation of the policies of our Company during the twenty-two years he was associated with us.

STOCKHOLDERS

Our family of stockholders continues to grow and our latest list shows 10,798 shareholders. We presently have an average of 9 stockholder-owners for each store we operate.

The following table shows the number of our common shareholders at various intervals since 1926.

1948	1944	1938	1932	1926
10,798	9,542	9,228	4,607	1,304

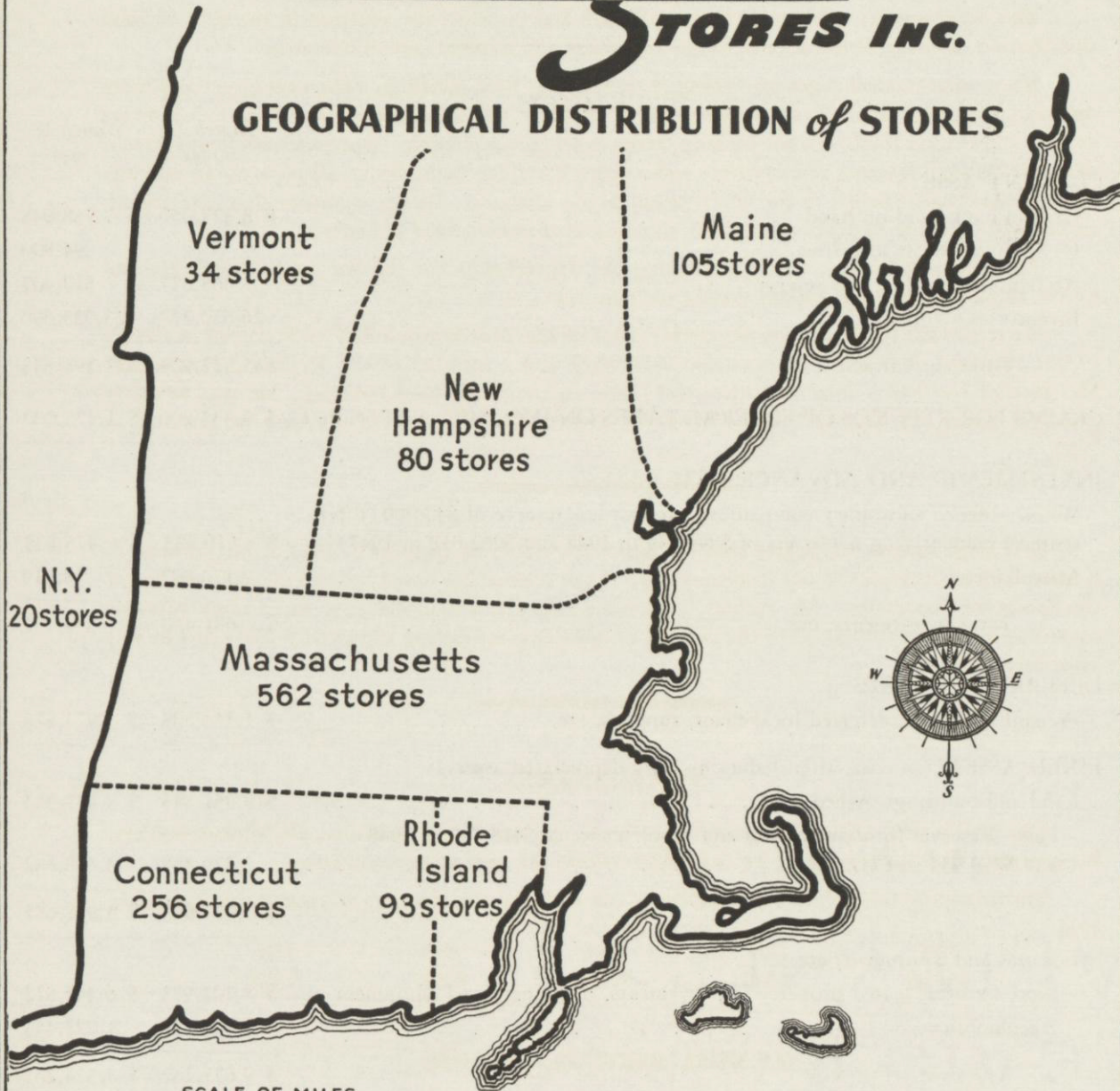
ANNUAL MEETING—PROXIES

A notice of the annual meeting of stockholders, proxy statement and proxy accompany this report. STOCKHOLDERS ARE REQUESTED TO SIGN THE MANAGEMENT'S AUTHORIZED PROXY AND MAIL PROMPTLY IN THE ENVELOPE PROVIDED. Your immediate attention to this important matter will be greatly appreciated and will save your Company considerable time and expense.

ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION of STORES



SCALE OF MILES
0 50 100 150

**Total Number
of Stores**
as of March 27, 1948
1150

FIRST NATIONAL STORES INC.

BALANCE SHEET—MARCH 27, 1948

(With comparative figures as of March 29, 1947)

ASSETS		<i>March 27,</i> 1948	<i>March 29,</i> 1947
CURRENT ASSETS:			
Cash in banks and on hand		\$ 8,329,050	\$ 7,758,948
U. S. Government securities	94,800
Accounts receivable, less reserve		568,627	517,407
Inventories (Note 1)		26,630,227	23,025,690
Total current assets		<u>\$35,527,904</u>	<u>\$31,396,845</u>
CLAIMS FOR REFUNDS OF FEDERAL TAXES ON INCOME—NET (Note 1)		<u>\$ 2,335,000</u>	<u>\$ 1,475,000</u>
INVESTMENTS AND ADVANCES, ETC.:			
Wholly-owned subsidiary companies — at cost less reserve of \$40,000 (represented by underlying net assets of \$844,649 in 1948 and \$762,058 in 1947)		\$ 510,833	\$ 475,833
Miscellaneous		170,597	58,519
Total investments, etc.		<u>\$ 681,430</u>	<u>\$ 534,352</u>
DEFERRED CHARGES:			
Prepaid insurance, deferred local taxes, supplies, etc.		\$ 1,364,808	\$ 923,878
FIXED ASSETS (at cost, after deducting fully-depreciated assets):			
Land and buildings owned		\$10,951,343	\$ 9,437,333
Less—Reserves for depreciation and obsolescence of \$418,747 in 1948 and \$259,954 in 1947		3,229,358	3,448,652
		<u>\$ 7,721,985</u>	<u>\$ 5,988,681</u>
Fixtures and equipment, etc.:			
Store fixtures, leased property improvements, machinery and equipment		\$ 8,202,973	\$ 6,441,812
Automobiles		1,468,289	1,082,453
		<u>\$ 9,671,262</u>	<u>\$ 7,524,265</u>
Less—Reserve for depreciation		4,007,775	3,718,098
		<u>\$ 5,663,487</u>	<u>\$ 3,806,167</u>
Total fixed assets (net)		<u>\$13,385,472</u>	<u>\$ 9,794,848</u>
GOODWILL		\$ 1	\$ 1
		<u>\$53,294,615</u>	<u>\$44,124,924</u>

FIRST NATIONAL STORES INC.

BALANCE SHEET—MARCH 27, 1948

(With comparative figures as of March 29, 1947)

LIABILITIES		<i>March 27,</i> <i>1948</i>	<i>March 29,</i> <i>1947</i>
CURRENT LIABILITIES:			
Note payable to bank	\$	\$ 800,000	
Accounts payable	7,254,618	6,062,403	
Owing to subsidiary companies	208,801	285,871	
Accrued local and state taxes and other expenses	3,909,991	2,504,675	
Employees' investment certificates	186,360	194,160	
Reserve for federal taxes on income (after deducting \$1,632,700 U. S. Treasury Tax Notes on hand in 1948 and \$3,446,530 in 1947)	3,914,708	1,651,402	
Total current liabilities	<u>\$15,474,478</u>	<u>\$11,498,511</u>	
RESERVES:			
For future price declines of inventories in retail stores, not valued on basis of last in, first out	\$ 2,400,000	\$	
For future payments of past service premiums under retirement annuity plan, less estimated federal income tax savings attributable thereto	1,675,425	1,885,000	
For contingencies	584,600	584,600	
Miscellaneous	218,809	184,865	
Total reserves	<u>\$ 4,878,834</u>	<u>\$ 2,654,465</u>	
CAPITAL STOCK AND SURPLUS:			
Common stock—			
Authorized—1,000,000 shares without par value			
Issued—827,634 shares	\$ 6,977,422	\$ 6,977,422	
Earned surplus	26,205,024	23,235,669	
Together	<u>\$33,182,446</u>	<u>\$30,213,091</u>	
Deduct:			
Common stock held in treasury—9,057 shares, at reduced amount, carried on books	241,143	241,143	
Total capital stock and surplus, less treasury stock	<u>\$32,941,303</u>	<u>\$29,971,948</u>	
	<u>\$53,294,615</u>	<u>\$44,124,924</u>	

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have examined the balance sheet of First National Stores Inc. as of March 27, 1948 and the statements of profit and loss and earned surplus for the fiscal year ending on that date. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of profit and loss and earned surplus, together with the notes thereto, present fairly the position of First National Stores Inc. at March 27, 1948 and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Boston, Massachusetts
May 28, 1948.

PRICE, WATERHOUSE & CO.

FIRST NATIONAL STORES INC.

STATEMENT OF PROFIT AND LOSS FOR THE FISCAL YEAR ENDING MARCH 27, 1948 (With comparative figures for preceding year)

	<i>Fiscal Year Ending</i>	
	<i>March 27, 1948</i>	<i>March 29, 1947</i>
Sales and revenues:		
Retail store sales	\$315,915,554	\$256,506,910
Interest and dividends received:		
From subsidiaries (Note 2)	13,000	18,400
From others	45,429	37,237
	<u>\$315,973,983</u>	<u>\$256,562,547</u>
Less:		
Cost of sales, expenses, etc. (exclusive of depreciation and obsolescence)— (Note 1)	\$301,308,021	\$243,514,359
Provision for depreciation and obsolescence of fixed assets	1,305,436	997,774
Interest paid	38,323	46,979
(Gain) on disposition of fixed assets (net)	(77,502)	(38,800)
Provision for federal income taxes	5,090,000	4,600,000
	<u>\$307,664,278</u>	<u>\$249,120,312</u>
	<u>\$ 8,309,705</u>	<u>\$ 7,442,235</u>
Excess of approximate cost of replacement of warehouse inventories valued on last in, first out basis, involuntarily liquidated in prior years, over the original inventory cost thereof, less estimated refunds of prior years' federal taxes (\$860,000 arising in 1948 and \$725,000 in 1947) resulting therefrom (Note 1)	280,000	200,000
Net profit for the year (before appropriations)	<u>\$ 8,029,705</u>	<u>\$ 7,242,235</u>
Less—Appropriations for:		
Future price declines of inventories in retail stores, not valued on basis of last in, first out	2,400,000
Future payments of past service liability under employees' retirement plan, less estimated federal income tax savings attributable thereto	1,885,000
Balance of net profit transferred to earned surplus	<u>\$ 5,629,705</u>	<u>\$ 5,357,235</u>

STATEMENT OF EARNED SURPLUS FOR THE FISCAL YEAR ENDING MARCH 27, 1948

Earned surplus at March 29, 1947	\$23,235,669
Balance of net profit for the fiscal year ending March 27, 1948, transferred from statement of profit and loss	5,629,705
	<u>\$28,865,374</u>
Deduct—Dividends paid on common stock	2,660,350
Earned surplus at March 27, 1948	<u>\$26,205,024</u>

NOTES TO FINANCIAL STATEMENTS

(1) Merchandise in retail stores was valued at approximate average cost (on the basis of first in, first out) which did not exceed market; other merchandise, materials and supplies (aggregating \$13,349,316 at March 27, 1948 and \$12,360,651 at March 29, 1947) were valued at cost on the basis of last in, first out, or at market where lower in the case of individual items.

Partial replacement has been made of inventories which were involuntarily liquidated in prior years and, as permitted by the Internal Revenue Code, the company has elected to value the items replaced at their original inventory prices. The excess cost of replacing a portion of the inventories which were involuntarily liquidated, less estimated refunds of federal taxes resulting therefrom, has been charged to profit and loss.

The use of the last in, first out method and the application of the involuntary liquidation and replacement provisions of the tax law are subject to review and acceptance by the Bureau of Internal Revenue.

(2) The net earnings of the subsidiary companies (all wholly-owned and not consolidated) aggregated \$60,707 in 1948 and \$66,275 in 1947.

(3) Contracts have been executed in amounts aggregating approximately \$3,000,000 for the construction of additional warehouse facilities.

UNIT NATIONAL SERVICE LINE

Department of Labor and the Social Security Administration

With the support of the following:

UNIT NATIONAL SERVICE LINE

UNIT NATIONAL SERVICE LINE

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